

MOTOR VEHICLE EXCISE TAX
RCWs 81.100 and 81.104
(NOTE: state tax repealed, effective January 1, 2000)

Until 2000 the state levied an annual excise tax of 2.2 percent on each motor vehicle, pursuant to RCW 82.44.020. Also, a clean air excise tax of \$2.00 per vehicle was imposed. Both taxes were repealed by Initiative 695, approved by the voters in November 1999. Although the Initiative was subsequently declared unconstitutional, the Legislature effectively repealed the state excise tax by enacting SB 6865, Chapter 1, 1st Special Session, Laws of 2000, which was effective on January 1, 2000. Authority for certain local motor vehicle excise taxes remain in effect as noted below.

Tax Base The value of motor vehicles designed for primary use on the public highways. The tax is based on the manufacturer's base suggested retail price when the vehicle is first offered for sale. The amount of local motor vehicle excise tax due thereafter is based on a statutory depreciation schedule as specified in the authorizing statute for each local taxing authority.

In 2006 a new depreciation schedule was adopted. RCW 82.44.035 provides that initially vehicles will be valued at 85 percent of their manufacturer's suggested retail price. Thereafter, the values decline annually down to 10 percent for vehicles more than 15 years old.

Tax Rate

STATE: No longer imposed.

LOCAL TAXES AUTHORIZED:

0.8 percent high capacity transportation service (RCW 81.104.160). The statute provides for a local motor vehicle excise tax of up to 0.8 percent for financing a high capacity transportation system. Under this authority the Sound Transit Regional Transportation Authority levies a local MVET of 0.3 percent in the urban areas of King, Snohomish, and Pierce counties. See discussion of I-776 below.

0.3 percent or 0.8 percent - high occupancy vehicle lanes (RCW 81.100.060). The statute, as amended in 2006, allows two types of local MVET to finance HOV lanes: a rate of 0.3 percent by a county and a rate of 0.8 percent by a regional transportation investment district. This tax is computed as a surtax on the state tax but is not credited against that tax (which no longer exists). Thus, the local tax represents an additional tax for the vehicle owner. To date, this local MVET has not been levied.

2.5 percent - monorail system (RCW 35.95A.080). Authorized by the Legislature in 2002, this local MVET provided funding for a City Transportation Authority in Seattle. The tax

was devoted to financing construction and operation of a monorail system. The maximum tax rate specified in the statute is 2.5 percent. A rate of 1.4 percent was levied by the CTA in Seattle through June of 2006.

0.4 percent - passenger-only ferry service (RCW 82.80.130). A public transportation benefit area which borders on Puget Sound but is not located within a regional transit authority is authorized to levy an MVET tax of up to 0.4 percent of the value of every motor vehicle owned by residents of the PTBA in order to finance passenger-only ferry service. This tax was authorized in 2003 and was intended for Kitsap County. However, such a tax has not yet been authorized by the voters of the PTBA, and the only proposal submitted to the electorate was rejected.

0.8 percent - regional transportation investment districts (RCW 36.120.050(1, d)). Authorized in 2002 and revised in 2006, this statute allows a regional transportation investment district (RTID) to levy a variety of taxes to finance regional transportation improvement projects. In addition to a local retail sales/use tax of 0.1 percent, a local option motor vehicle fuel tax and an employer excise tax, the statute references the local MVET authorized by RCW 81.100.060 (see above). This authorizes the RTID to levy an MVET of up to 0.8 percent for transportation projects other than high occupancy vehicle lanes. Plans are currently underway for formation of an RTID, but this taxing authority has yet to be exercised.

\$100 vehicle fee – transportation benefit district (RCW 82.80.140(1)). Established in 2005, this statute, in conjunction with RCW 36.73.040(3, b), enables a transportation benefit district to impose an annual fee of up to \$100 for each vehicle that is registered within the district. Proceeds must be devoted to financing transportation improvement projects undertaken by the district. This funding source has yet to be implemented.

Levied by

Local – High Capacity Transportation Service. Cities, counties, metropolitan municipal corporations, public transportation benefit areas, and regional transportation authorities may levy a local MVET of up to 0.8 percent to finance a high capacity transportation service. In November 1996, a regional transportation authority (now Sound Transit RTA) levied this tax at a rate of 0.3 percent. In November 2002 the voters approved Initiative 776 which repealed the authority for the local MVET in RCW 81.104.160, effective December 5, 2002. However, a King County Superior Court judge ruled that the measure was unconstitutional, so the MVET was allowed to continue. On December 7, 2006, the State Supreme Court ruled that the tax can continue until bonds issued by the RTA in 1999 are retired (expected in 2008).

Local - High Occupancy Vehicle Lanes. King, Pierce, or Snohomish counties or a regional transportation investment district may levy a local surcharge of up to 13.64 percent on the state motor vehicle excise tax (which no longer exists), if approved by the voters. The maximum local rate equals 0.3 percent (2.2 percent previous state rate x 0.1364) and applies

to vehicles owned by residents of the county. Proceeds must be devoted to the development of high occupancy vehicle (HOV) lanes. To date, none of these counties or an RTID has levied this tax.

Local - City Transportation Authority. The CTA in Seattle was authorized by the voters to levy the local MVET for the monorail project in November 2002. Under the financing plan a tax rate of 0.85 percent was levied initially during the monorail planning process. The rate increased to 1.4 percent on June 1, 2004, when construction of the system commenced. However, the Seattle electorate voted to discontinue the project in 2005 and the tax was repealed as of July 2006.

Local - Passenger Ferry Service. The 0.4 percent tax has not been implemented.

Local - Regional Transportation Investment District. The 0.8 percent tax has yet to be levied, because an RTID has not yet been established.

Local - Transportation Benefit District. The \$100 vehicle fee has not been imposed.

Administration

Department of Licensing. The tax is paid annually by vehicle owners at the time of registration to DOL, county auditors, or other licensing agents. The tax applies for the 12-month registration year, according to the day on which the vehicle is first registered. The Department of Revenue is authorized to collect unpaid motor vehicle excise and retail sales/use taxes in order to utilize the administrative provision of Chapter 82.32 RCW.

Prior Collections - 2.2 Percent Former State Tax (\$000)

<u>Fiscal Year</u>	<u>Collections</u>	<u>% Change</u>	<u>% of All State Taxes</u>
2001	---	-.-	-.-
2000	\$330,121	(60.8%)	2.8%
1999	841,135	8.5	7.3
1998	775,310	7.3	7.0
1997	722,503	4.2	6.9
1996	693,330	5.9	7.0
1995	654,528	12.1	6.8
1994	583,906	9.2	6.5
1993	534,886	5.0	6.4
1992	509,285	10.7	6.5

Distributions of Local MVET (\$000)

<u>Calendar Year</u>	<u>RTA Tax</u>	<u>Monorail Tax</u>
2006	\$58,929*	\$34,368**
2005	66,446	35,929
2004	63,894	44,529
2003	69,459	9,232
2002	58,846	--
2001	55,746	--
2000	53,896	--
1999	45,553	--
1998	44,280	--
1997	30,491	--

*10 months, with two monthly distributions remaining in CY 2006

**Collection of the tax was terminated in July 2006, but small residual amounts of prior liability may continue to be collected for the next few months.

Source: State Treasurer.

Exemptions and Credits (for prior state tax; presumably same exemptions apply for local MVET)

- publicly owned vehicles with "exempt" licenses;
- vehicles designed for principal use off of public highways;
- motor vehicles and trailers used entirely upon private property;
- mobile homes and travel trailers (subject to separate tax);
- vehicles owned by nonresident military personnel at the time they were first stationed in Washington;
- vehicles owned by dealers and operated with the use of a dealer's license plate;
- truck-type power and trailing units of 6,000 pounds or less;
- the value of motor vehicles attributable to modifications to facilitate use by handicapped persons;
- passenger vehicles regularly used by at least five persons in conjunction with commute trip reduction programs in the eight largest counties and ride-sharing vans used to transport persons with special transportation needs;
- vehicles owned by Indian tribes and enrolled tribal members (RCW 46.16.020);
- trailing units (semi-truck trailers), except those for hauling logs, used in conjunction with truck tractors;
- rental cars which are subject to the rental car tax;
- vehicles licensed by the Taipei Economic and Cultural Office per RCW 46.16.374;
- annual credit of \$30 for each personal-use vehicle including passenger cars, light trucks, and motorcycles, effective with registrations occurring in July 1999.

History

The state motor vehicle excise tax was established in 1937 at a rate of 1.5 percent; previously, vehicles were subject to assessment under the property tax. The rate was increased to 2 percent in 1959. In 1969 the municipal motor vehicle excise tax of 1 percent was authorized as an off-set against the state tax, with the revenues going to local mass transit facilities.

The tax rate was increased to 2.2 percent in 1977 with the additional 0.2 percent tax dedicated to construction of state ferries. Also in 1977 the staggered licensing system, whereby vehicles are licensed for a 12-month period rather than on a calendar year basis, was adopted.

Surtaxes were adopted in 1982, raising the state tax rate to 2.354 percent. The local sales tax equalization program, using state motor vehicle excise tax revenues, was established in 1982; under this program cities and counties with low per capita yields from their local sales taxes received additional funding using state MVET revenues. In 1987 an additional tax of 0.1 percent was enacted for two years with the receipts dedicated to ferry operations; this additional tax was incorporated into the changes made in 1990.

Comprehensive changes in funding of state and local transportation programs were enacted in 1990. Among the changes was a rollback of the motor vehicle excise tax rate to 2.2 percent and authorization for the local option motor vehicle excise taxes. Essentially, the previous state tax rate of 2.454 percent was reduced to 2 percent. However, no loss of revenue occurred as a result of changing from the previous assessment method using 12 depreciation schedules to the new system which bases the tax upon the original suggested retail price with one of three possible depreciation schedules. The additional 0.2 percent state tax was dedicated to the newly-created state transportation fund.

The additional \$2.00 clean air tax was established in 1993 at a rate of \$2.25. It dropped to \$2.00 the following year.

In November 1996 the RTA levied a 0.3 percent local motor vehicle excise tax in parts of King, Snohomish, and Pierce counties, effective starting in 1997.

In November 1998 the voters approved Referendum 49, which established a maximum credit of \$30 per vehicle against the state motor vehicle excise tax. It also revised the formulas for distribution of the tax receipts, shifting funds from the general fund into the transportation fund to be used for highway purposes.

At the November 1999 election the voters approved Initiative 695 which replaced the 2.2 percent state tax and the \$2.00 clean air excise tax with a maximum annual license fee of \$30 per vehicle. Although the Initiative was subsequently declared unconstitutional, the Legislature effectively repealed these state taxes and established the \$30 vehicle license fee by enacting SB 6865, Chapter 1, 1st Special Session, Laws of 2000, which was effective on January 1, 2000.

Legislation in 2002 clarified that the Legislature also intended to repeal the local MVET for mass transit systems, and RCW 35.58.273 which previously authorized such a local tax at a rate of up to 0.725 percent was repealed.

Also in 2002, a new local MVET to finance construction and operation of a monorail system was authorized. That same year the Seattle voters approved the monorail proposal and the local tax was implemented on January 1, 2003, initially at a rate of 0.85 percent and then, starting in June 2004, the rate increased to 1.4 percent. The project was curtailed following a vote of the Seattle electorate in 2005. The tax continued until prior financial commitments were funded, and collections ceased in July 2006.

In the November 2002 election the voters approved Initiative 776 which repealed the authority for two local motor vehicle excise taxes effective December 5, 2002: RCW 35.58.273 which allowed cities to levy an MVET of 0.725 percent for transportation purposes and RCW 81.104.160 which provided authority for an MVET of up to 0.8 percent to finance high capacity transportation. Under the latter authority, since 1997 the Regional Transit Authority had levied a tax of 0.3 percent in the metropolitan areas of Snohomish, King, and Pierce counties to finance Sound Transit's light rail system. On December 7, 2006, the State Supreme Court affirmed that the tax can continue to be levied until bonds issued in 1999 to finance the light rail system are retired. Thus, the 0.3 percent tax remains in place, even though the authorizing statute - RCW 81.104.160 - no longer contains language providing for a local MVET.

Discussion/Major Issues

The motor vehicle excise tax was originally intended as a tax in lieu of property tax. Taxing vehicles by the excise tax method guaranteed a uniform application of the tax throughout the state, compared with the variation in assessment methods and levy rates that would prevail if vehicles were subject to property taxation. However, the distribution of receipts did not correspond with property tax revenues and the rate of tax exceeded the average property tax levy rate.

The annual motor vehicle excise tax payments were deductible for federal tax purposes by persons who itemized their deductions for federal income taxes.

The annual motor vehicle excise tax was quite high compared with other states. In Oregon, for example, there is no annual tax on vehicles and the licensing fee for a passenger car amounted to \$30 for a two-year period. (Washington's license fee previously was \$27.75 for a new registration and \$23.75 for annual renewals.)

The combined tax burden in Washington on newly acquired vehicles was probably among the highest in the nation. For example, the owner of a new vehicle costing \$20,000 would pay \$1,760 in retail sales tax (assuming 8.8 percent state/local tax rate and no trade-in), \$410 in state motor vehicle excise tax, and an initial registration fee of \$27.75 - a combined

effective tax rate of 11 percent.

Legislation enacted in 2000 (RCW 84.36.595) stipulated that motor vehicles would remain exempt from property taxation, regardless of whether or not they were subject to a separate excise tax.

There has been concern about the loss of the local sales tax equalization program which no longer is funded because of the loss of state MVET revenues. This has hurt cities, counties, and transit districts with lower than average sales tax bases.